

 e-bate

Supercharge your rebate management

# 10 Tips For Your Rebate Pricing Strategy

Rebate Management

e-bate.io

# 10 Tips for Your Rebate Pricing Strategy

An effective rebate pricing strategy will maximise your revenues and profits – as well as attract new buyers and improve customer loyalty.

As with all discount pricing strategies, getting your rebate programmes right is something of a balancing act.

On the one hand, your incentives must be generous enough to encourage customers to buy – on the other, not so generous that your sales are no longer profitable.

**EXPERT TIP:** Buyers have a lot of choice in where to purchase. However, product lines are not profitable until the rebate has been paid. Encourage your buyer to procure more and hit or exceed their targets, providing a WIN:WIN situation.

Rebates are an important part of trading across many industries, including [construction](#), [automotive](#), [pharmaceuticals](#) and [FMCG](#) and have numerous proven benefits. No matter if you're looking to incentivise buyers to make large purchases, move old stock, generate demand for high margin products, or drive revenue growth in a particular product line - an effective rebate management strategy can help achieve all of these things.

Nonetheless, it must be remembered that all rebate offers, when claimed, still amount to a price concession – and the more you give away, the less money your organisation makes.

Rebate pricing strategies must be structured, calculated and managed carefully with the right discounts and rebates applied in the right scenarios for the right purposes – using the right tools for the job at hand.

EXPERT TIP: When offering rebates consider:

- your sales strategy (what are you trying to achieve)?
- creating joint business plans with your customers, planning all spend and use predictive analytics to forecast outcomes, empower scenario planning and improve decision making
- your rebate offers in conjunction with your ability to supply the goods / services
- visibility of the performance and claim / payment management
- post event analysis – what went well, what could have been better? This helps to formulate the strategy for the next year

Here are ten top tips to ensure your rebate pricing strategy achieves your business objectives without eating into your margins:

## 1. Use Volume Thresholds to Protect Margins

An important difference between a discount and rebate is that a discount is applied at the point of purchase, whereas a rebate is a retrospective payment back to the buyer only after they've paid the full price and all conditions have been met.

In other words, rather than granting discounts upfront, a rebate programme mandates that buyers have to earn the discount.

In any pricing negotiation, buyers will of course, try to negotiate the best price possible on the goods they intend to purchase. The beauty of rebates is that they protect your organisation from buyer gaming and overpromising. When relying on upfront volume discounts to drive sales, a buyer may promise to purchase, say, 1,000 products over a 12-month period at a discounted price, but in the end only orders 250. So, they get the discount, but don't buy the volume.

By applying a volume threshold through a rebate programme, buyers always pay the full price for products and only receive the discount – paid back retroactively as a rebate – once they've purchased the agreed-upon volume.

## 10 Tips for Your Rebate Pricing Strategy

---

This means that you can hold your list price for customers who are only able to make low-volume orders, and as a result you would protect your margins.

For customers who do increase their order above the threshold, you will of course lose some margin per item, but will make up for it with a larger deal – and the risk of non-compliance always lies with the buyer.

For example:

---

<b>Sales</b>	<b>Rebate</b>
0-999	£0.00
>1,000	£2.00

---

## 2. Tier Your Incentives to Encourage Larger and Larger Purchases

There's no need to stick to just one threshold when utilizing volume rebates.

In fact, a good rebate pricing strategy will offer tiered incentive targets to encourage buyers to make larger and larger purchases – the more volume ordered over the course of the deal, the better price per unit the buyer receives.

For example, you may structure your rebate programme with incentive targets of 100 units, 500 units and 1,000 units.

Sales	Rebate
0-99	£0.00
100-499	£1.00
500-999	£2.00
>1,000	£3.00

**EXPERT TIP:** Understand what you are agreeing to. We have seen occurrences where a rebate has been agreed as a non-retro but calculated as a retro. This can make a big difference to what you have to pay out.

# 10 Tips for Your Rebate Pricing Strategy

See the example below.

---

Tiered % of Turnover (Retro)      % rebate calculation where the % rebate variable dependent is on the achievement of different levels of sales e.g.

Sales	Rebate
£1,000	2.0%
£5,000	4.0%
£10,000	6.0%

So if total sales were £7,500 then the rebate would be  $£7,500 \times 4.0\%$   
= £300

---

Tiered % of Turnover (Non Retro)      % rebate calculation where the % rebate variable dependent on the achievement of different levels of sales but rebate is paid on each level individually eg

Sales	Rebate
£1,000	2.0%
£5,000	4.0%
£10,000	6.0%

So if total sales were £7,500 then rebate would be

$£1,000 \times 0.0\%$  - £0

$£4,000 \times 2.0\%$  = £20

$£2,500 \times 4.0\%$  = £100

Rebate = £120

## 10 Tips for Your Rebate Pricing Strategy

Alternatively, you can base your rebate programme on the value of orders rather than volume which encourages buyers to spend more, and each rebate tier applying once certain value thresholds have been met.

In this case, the rebate will be calculated as a percentage.

<b>Sales</b>	<b>Rebate</b>
£0.00-£999	0%
£1,000-£4,999	1%
£5,000-£9,999	2%
>£10,000	3%

### 3. Use Growth Rebates to Increase Order Volume/Value Over Sustained Periods

Volume rebates are useful for increasing the volume or value of individual orders – but there’s no guarantee this rebate pricing strategy will result in higher-volume or -value orders over a sustained period of time.

This is where growth rebates can be applied.

Based on incremental growth in orders, growth rebates are issued when buyers meet certain growth targets, such as when their spend has increased by a certain volume, value or percentage above a specified baseline. As such, growth is effectively a condition attached to a volume- or value-based rebate.

For example:

---

<b>% Growth Value Over Previous Year</b>	<b>Rebate</b>
2% growth	£1,000
4% growth	£2,000
6% growth	£4,000

---



## 4. Use Retention Rebates to Increase Customer Loyalty

Market research indicates that new customer acquisition is a far more expensive endeavour than customer retention. In fact, acquiring a new customer can cost up to **seven times more** than retaining an existing one – and increasing customer retention by 5% can increase future profits from **25-95%**.



(Image source: [struto.co.uk](http://struto.co.uk))

Here, you can use retention rebates as part of your rebate strategy to encourage customer loyalty.

Retention rebates are usually issued at the end of a given time period – often twelve months – and reward continuous or regular business.

Orders	Rebate
Quarterly over a year (4 orders)	1% of value
Bimonthly over a year (6 orders)	2% of value
Monthly over a year (12 orders)	3% of value

## 5. Use Product Mix Rebates to Encourage Purchases Across a Range of Products

To further improve customer loyalty, you can build product mix incentives into your rebate pricing strategy to encourage existing buyers to make purchases across a wider range of products than they currently do.

For example, let's say you're a wholesaler serving the fast-moving consumer goods (FMCG) industry. You have a deal in place with a buying group, which currently only buys toiletries from you, but gets over-the-counter medicines elsewhere. The buying group has a fixed demand for your toiletries, so there is little you can do to incentivise them to buy more.

However, what you can do is offer a product mix incentive to encourage them to switch away from their over-the-counter medicine supplier and buy the medicine from you instead.

In effect, with product mix rebates, buyers get a rebate on their regular order of product X on the condition they buy product Y.

Again, pricing can be tiered to encourage a greater volume or value of purchases.

---

<b>Sales of Product Y</b>	<b>Rebate on Product X</b>
0-99	£0.00
100-499	£2.00
500-999	£4.00
>1,000	£6.00

---

## 6. Set Strategic Goals for Your Rebates

As well as utilising rebates to increase sales, your rebate programme should also be used as a strategic tool to drive customer behaviour.

As such, before implementing a rebate pricing strategy, you need to set yourself strategic goals or customer objectives.

For each customer, buying group, or account, ask yourself what type of behaviour you are trying to encourage. Then, for each desired behaviour, establish what type of rebate to employ to achieve it.

<b>Customer Objective</b>	<b>Rebate Type</b>
Discourage overpromising	Volume rebates
Increase volume	Volume, growth or product mix rebates
Increase loyalty/retention	Growth or retention rebates
Purchase newly launched product	Product mix rebates

## **7. Analyse Rebate Performance to Optimise Your Programmes and Keep Your Rebates Profitable**

Many businesses are more concerned by the loss of a sale as opposed to ensuring that every sale is profitable.

Yes, rebates can and should be used to increase sales, but each of your rebate deals must be designed to protect margins in the process.

A successful rebate pricing strategy is one that brings in more revenue than is lost through the rebate itself. Ultimately, profit growth is the number one priority of your rebate programmes and so you must constantly analyse rebate performance to determine the profitability of each deal and make adjustments accordingly.

Track your rebates closely to discover which ones work and which ones don't.

If growth rebates aren't improving customer loyalty, switch to retention rebates. If your volume rebates are eating into your bottom line, adjust the thresholds. If your product mix rebates are performing well with a certain line of products, try offering the incentive to other customers to see if you can shift even more volume.

## **8. Assign Roles and Responsibilities for Approving Rebates**

Rebates should incentivise desired buyer behaviours. In other words, they should always be earned, not handed out haphazardly without method or planning.

Your rebate programme must be carefully constructed so that customers never simply "expect" a rebate – for once rebates become a regular, expected part of the sales process, they no longer act as incentives at all and there is no way to measure the impact of your programme on customer behaviour.

To avoid this, assign clear roles and responsibilities for authorising rebates, so sales reps don't use them indiscriminately or as a crutch in the sales process. All agreements made must be audited, approved and signed off by appropriate parties, as well as any changes that occur throughout the rebate lifecycle.

### 9. Don't Use Spreadsheets to Manage Your Rebates

Trying to manage complex rebate pricing strategies using spreadsheets is a time-consuming, risky affair – especially as you start to offer different types of rebates on different products to different customers, not to mention personalising offers to chosen buyers to incentivise or modify behaviours.

**EXPERT TIP:** The data in spreadsheets is generally 4-8 weeks out of date and difficult to use for value adding data insights. One contact missed hitting the next tier in a rebate as they didn't have access to the information. This had a direct impact on profits of £30k.

As more and more rebates are added to your programme, a spreadsheet can quickly become swamped with data. As this happens, not only does the likelihood of data entry errors and omissions increase, but it becomes harder to track agreements and determine which buyers have earned which rebates. Before long, your rebate pricing strategy falls apart and you're back to offering the same deal to all customers.

In short, spreadsheets simply aren't up to the complex task of rebate management.

### 10. Use Rebate Management Software to Optimise Your Rebate Programmes

The only way to effectively manage your rebate programmes with multiple deals spanning multiple products and buyers, is with purpose-built rebate management software.

Rebate management software solutions allow organisations to quickly and easily implement many different kinds of rebates and personalise them for different customers.

The software then automatically tracks sales made against your various deals, with real-time calculation engines processing your data in real-time to generate detailed reports so you can monitor and evaluate rebate performance.

## 10 Tips for Your Rebate Pricing Strategy

---

By implementing rebate management software, you can determine which type of rebate to employ – and to whom – to drive desired customer behaviour.

The best rebate management software solutions also come with deal modelling tools, allowing you to draft any new deals in advance. This then enables you to fully understand the financial implications of any rebate you offer, before agreeing it commercially with the customer. In this way, you are able to see if a proposed deal will meet business objectives and how your margins will be impacted.

In addition, today's systems come with configurable workflow engines, which ensure that all agreements are audited, approved and signed off by appropriate parties in a timely fashion.

Automated notifications can also be set to alert relevant individuals whenever a sign-off is required, ensuring all rebate actions take place consistently and efficiently and that all your rebates are being proactively tracked and managed.

### **Optimise Your Rebate Pricing Strategy with e-bate – The Ultimate Rebate Management Solution**

e-bate is a purpose-built rebate management solution, delivered as a SaaS, designed to help companies structure and optimise their rebate management processes and achieve pricing perfection.

Our software comes with a built in, calculation engine, allowing you to track and analyse all data against your agreements in real-time, while our robust deal-modelling features allow you to make rapid assessments of the deals you are negotiating and overcome the complexities of designing winning pricing strategies. Numerous deal types are built into the system, ready to be personalised to drive the required behaviours.

The e-bate platform automates every element of the rebate process, eliminating spreadsheet reliance, helping companies manage pricing and increase revenues and profit, all while ensuring compliance through a full audit trail and comprehensive workflows.

e-bate is your single source of all rebate information, providing you with the insights you need to make proactive decisions that drive business value.

**Request a demo or get in touch today to find out more about how e-bate can help you optimise your rebate management and perfect your rebate pricing strategy.**



Call: 033 022 32500

Web: [www.e-bate.io](http://www.e-bate.io)

Email: [enquires@e-bate.net](mailto:enquires@e-bate.net)